“THE ROLE OF FINANCIAL LITERACY IN ECONOMIC DEVELOPMENT”

A

ACADEMIC PROJECT REPORT

SUBMITTED IN THE PARTIAL FULFILMENT OF THE REQUIREMENTS OF ARKA JAIN UNIVERSITY

For SEMESTER – IV

BACHELOR OF COMMERCE (HONORS)

For the session 2024-2025

Submitted By

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DECLARATION BY THE STUDENT

I, **SUMIT KUMAR**, hereby declare the project titled **"THE ROLE OF FINANCIAL LITERACY IN ECONOMIC DEVELOPMENT"** has been carried out by me during my **'ACADEMIC PROJECT'** and is hereby submitted in the partial fulfilment of the requirement **of ARKA JAIN UNIVERSITY** for the award of the degree of **Bachelor of commerce.**

To the best of my knowledge, the project undertaken, has been carried out by me in Semester – IV and is my original work. The contents of this report are authentic and this report has not been submitted elsewhere for the award of any Certificate/ Degree/ Diploma etc.

Signature of the Student

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<u>CERTIFICATE OF APPROVAL</u>

The project report on the topic THE SCOPE OF **FINANCIAL LITERACY IN ECONOMIC DEVELOPMENT** has been examined and evaluated by the undersigned and found to be satisfactory in terms of its content, format, and adherence to the guidelines provided by the B.COM (H), Department of Management, School of Commerce and Management.

I, hereby recommend that the project report be accepted and submitted for further evaluation.

Approval of the Program Coordinator	**Approval of the Assistant Dean (UG)**
B.COM (H), Department of Commerce ManaGEMENT	**School of Commerce and**
School of Commerce and Management	**ARKA JAIN UNIVERSITY ARKA**
JAIN UNIVERSITY	

CERTIFICATE FROM THE FACULTY MENTOR

This is to certify that the project report titled "[THE ROLE OF **Financial literacy IN ECONOMIC DEVELOPMENT]" by SUMIT KUMAR, AJU/230448,** has been completed under my supervision and is approved as meeting the requirements for the fulfilment of B.COM (H), Department of Management at School of Commerce and Management.

Signature of the Faculty Mentor,

Name of the Faculty Mentor: Mr. / Ms. SEEMA DAS

Designation of the Faculty Mentor: Assistant Professor

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Abstract

In an increasingly risky and globalized marketplace, people must be able to make wellinformed financial decisions. New international research demonstrates that financial illiteracy is widespread in both well-developed and rapidly changing markets. Women are less financially literate than men,the young and the old are less financially literate than the middle-aged, and more educated people are more financially knowledgeable. Most importantly, the financially literate are more likely to plan for retirement. Instrumental variables estimates show that the effects of financial literacy on retirement planning tend to be underestimated. In sum, around the world, financial literacy is critical to retirement security. This paper aims to study the Financial Literacy among the different Economic Classes in Indian how this impacts on investment decision making process of different age groups. Each individual's financial needs are the differ from other, though they may live in the same geographical area. Current economic conditions have raised serious concerns about Americans' financial security, especially for those who lack the skills and resources to withstand financial market downswings and take advantage of upswings. However, significant debate continues about the role of financial literacy, the extent of the problem it truly represents, and the best way to address it. A large part of this debate may be linked to the fact that a great deal of variation continues to exist in how researchers define and measure financial literacy itself. By providing a review of theoretical and operational approaches to financial literacy, as well as a conceptual model and composite definition of financial literacy, this paper contributes towards further sharpening this debate. Financial literacy is an essential skill that enables individuals to manage their personal finances effectively, make informed financial decisions, and navigate the complexities of modern economic systems. In a rapidly changing financial environment, where the global economy is interconnected and financial products and services are continually evolving, financial literacy has become an indispensable aspect of daily life. This abstract explores the concept of financial literacy, its importance, and its impact on individuals and society, emphasizing the need for education and awareness to improve financial decision-making. Financial literacy refers to the understanding and application of key financial concepts, such as budgeting, saving, investing, credit management, and retirement planning. It involves the ability to read and interpret financial information, understand the consequences of financial decisions, and apply that knowledge to everyday life. Financially literate individuals are

equipped with the tools to manage their finances effectively, reduce financial stress, and build a secure future. However, despite its importance, financial literacy remains a significant challenge for many individuals worldwide.

This abstract explores the importance of financial literacy in the context of personal financial management and examines the factors that contribute to financial literacy gaps. Additionally, it discusses the role of financial education in fostering greater financial literacy and its broader implications for economic stability, individual well-being, and social equity. In recent years, as workers have gained an unprecedented degree of control over their pensions and savings, the importance of financial literacy and financial education has increased considerably. Large changes in the structure of financial markets, labor markets, and demographics in developed countries have led to this change. Consumers have a bewildering array of complex financial products - from reverse mortgages to annuities - to choose from, making saving decisions increasingly complex. Knowledge about the working of compound interest rates, the effects of inflation, and the working of financial markets is essential to make saving decisions. Several initiatives have been undertaken to improve financial literacy. The Organization for Economic Co-Operation and Development (OECD) comprehensively defines financial education as the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being. Building upon this definition, I provide a review of the current state of financial literacy and financial education programs, and discuss whether workers possess the financial literacy necessary to process information and formulate saving plans. In this survey, we review the voluminous body of literature on the measurement and the determinants of financial literacy. Wherever possible, we supplement existing findings with recent descriptive evidence of German households' financial literacy levels based on the novel *Panel on Household Finances* dataset, a largescale survey administered by the Deutsche Bundesbank and representative of the financial situation of households in Germany. Prior research not only documents generally low levels of financial literacy but also finds large heterogeneity in financial literacy across the population, suggesting that economically vulnerable groups are placed at further disadvantage by their lack of financial knowledge. In addition, we assess the literature evaluating financial education as a means to improve financial literacy and financial behavior. Our survey suggests that the evidence with respect to the effectiveness of the

programs is rather disappointing. We also review the role of individuals' financial literacy for the use of professional financial advice and assess whether expert intervention can serve as a substitute to financial literacy. We conclude by discussing several directions for future research. This article is a literature review on the concept of financial literacy and its measurements. Based upon the review of several studies, the conceptual definitions of financial literacy would be categorized in four groups; (1) knowledge of financial concepts, (2) ability in managing personal finances, (3) skill in making financial decisions and (4) confidence in future financial planning while in the rest of the studies, researchers apply the combination of these categories. Literature also shows that the applied methods for testing the level of financial literacy in individuals are not constant and they are varied based on the definition of financial literacy.

Introduction

Financial literacy has become a significant debate among scholars especially in times of economic and financial turmoil and uncertainty as can be seen in research and publication trends. Moreover, being equipped with financial literacy is essential for individuals these days as financial markets are becoming sophisticated as compared to two or three decades ago. Although many researchers have defined financial literacy but the definitions are varied despite Schuchardt's et al. (2009) call for consistency. The terms financial literacy, financial knowledge and financial education are often used interchangeably in the literatures and few researchers have made effort to define or differentiate these terms. Unlike health literacy, or other subjects which typically use a standardized measurement, there are currently no standardized instruments to measure financial literacy. Indeed, a definition of financial literacy would seem to be a prerequisite for its measurement. In this regard, this article reviews several studies concentrating on the meaning and measurement of financial literacy.

Financial literacy refers to the understanding and application of key financial concepts, such as budgeting, saving, investing, credit management, and retirement planning. It involves the ability to read and interpret financial information, understand the consequences of financial decisions, and apply that knowledge to everyday life. Financially literate individuals are equipped with the tools to manage their finances effectively, reduce financial stress, and build a secure future. However, despite its importance, financial literacy remains a significant challenge for many individuals worldwide.

This abstract explores the importance of financial literacy in the context of personal financial management and examines the factors that contribute to financial literacy gaps. Additionally, it discusses the role of financial education in fostering greater financial literacy and its broader implications for economic stability, individual well-being, and social equity.

The Importance of Financial Literacy

The importance of financial literacy cannot be overstated in a world where financial decisions have far-reaching consequences. A lack of financial knowledge can lead to poor decisionmaking, resulting in debt accumulation, low credit scores, missed savings opportunities, and an inability to plan for long-term financial goals. Financial literacy empowers individuals to make informed decisions about spending, saving, investing, and managing credit, all of which are essential for achieving financial security.

One of the most pressing issues associated with low financial literacy is its impact on financial inclusion. Many people, particularly those in low-income and marginalized communities, struggle to access the financial resources they need due to a lack of understanding of financial products and services. Without financial literacy, individuals may fail to recognize the benefits of basic financial services, such as bank accounts, insurance, or retirement savings plans, thus perpetuating cycles of poverty and financial insecurity.

In contrast, individuals with higher levels of financial literacy are better equipped to navigate complex financial systems and make decisions that promote their financial well-being. Research shows that financially literate individuals are more likely to save, invest, and plan for retirement, leading to greater financial stability and long-term prosperity.

Key Components of Financial Literacy

Financial literacy encompasses a range of topics and skills, each of which plays a critical role in an individual's ability to manage finances effectively. Some of the key components of financial literacy include:

1. **Budgeting and Money Management**: Effective budgeting is the foundation of sound financial management. Financially literate individuals understand how to track their income and expenses, set financial goals, and create a budget that allows them to live within their means. By mastering budgeting, individuals can avoid overspending, build an emergency fund, and save for future needs.

2. **Saving and Investing**: Financial literacy also involves an understanding of the importance of saving and investing for the future. Individuals who are financially literate are aware of the benefits of long-term savings and investment strategies, such as retirement accounts and other investment vehicles. They understand concepts like compound interest, risk diversification, and the difference between short-term and long-term financial goals.

3. **Credit and Debt Management**: Knowledge of credit and debt management is another crucial aspect of financial literacy. Individuals need to understand how credit works, the impact of interest rates, and how to manage debt responsibly. Financially literate individuals are better able to avoid predatory lending practices, maintain healthy credit scores, and make timely payments on loans and credit cards.

4. **Insurance and Risk Management**: Understanding insurance and risk management is also a vital component of financial literacy. Financially literate individuals are aware of

the types of insurance they need, such as health, life, and property insurance, and they understand how insurance can help mitigate the financial risks associated with unexpected events, such as accidents, illness, or loss of income.

5. **Retirement Planning**: Planning for retirement is an essential part of financial literacy. Individuals who understand the principles of retirement planning, such as the need to save early and invest wisely, are more likely to accumulate sufficient funds to ensure financial security in their later years. They are also more likely to take advantage of employer-sponsored retirement plans and government programs, such as Social Security, to support their retirement goals.

The Role of Financial Education

Financial education plays a pivotal role in closing the financial literacy gap and improving financial well-being. By providing individuals with the knowledge and skills needed to make informed financial decisions, financial education programs can help to empower people and promote financial inclusion. These programs can take various forms, including school-based curricula, community workshops, workplace seminars, and online resources.

In schools, financial literacy education can be integrated into existing curricula or offered as a standalone subject. Research has shown that early financial education is particularly effective in shaping positive financial behaviors and attitudes in young people. When students are taught about budgeting, saving, and investing at an early age, they are more likely to develop good financial habits that carry into adulthood.

In addition to formal education, community-based financial literacy programs can help to reach underserved populations who may not have access to traditional financial education resources. These programs can be tailored to meet the specific needs of different communities, such as providing information on managing student loans, avoiding payday lending, or navigating government assistance programs.

Workplace financial education programs are also an effective way to reach employees and provide them with the tools to manage their finances. Many employers now offer financial wellness programs that cover topics such as retirement planning, debt management, and budgeting. These programs can help employees reduce financial stress, improve productivity, and plan for a secure future.

Finally, online resources and digital platforms offer a convenient and accessible way for individuals to improve their financial literacy. Websites, apps, and social media channels provide a wealth of information on a wide range of financial topics, making it easier for individuals to access the knowledge they need to make informed decisions. Financial literacy is the knowledge of numerous financial concepts, such as managing personal finances, handling money, and investing. Investing, insurance, real estate, paying for college, budgeting, retirement, and tax planning are just a few of the personal finance decisions that are covered in this topic, which focuses on how to handle personal finances effectively. Financial literacy also includes being knowledgeable about key financial concepts and principles, like time value of money, debt management, financial planning, compound interest, and managing debt. People who are knowledgeable about the topic have should be able to respond to a number of inquiries regarding purchases, including if a product is necessary, whether it is affordable, and whether it is an asset or a liability. This area shows how a person's thoughts and behaviours around money are applied to his daily life. This ability can assist someone in creating a financial road map that shows what they earn, what they spend, and what they owe. The development of self-sufficiency through financial literacy enables people to achieve financial stability. People who are knowledgeable about the topic have should be able to respond to a number of inquiries regarding purchases, including if a product is necessary, whether it is affordable, and whether it is an asset or a liability. This area shows how a person's thoughts and behaviours around money are applied to his daily life. Financial decision-making is demonstrated by one's level of financial literacy. This ability can assist someone in creating a financial road map that shows what they earn, what they spend, and what they owe. All socioeconomic levels and ages are impacted by financial illiteracy. Many people who lack financial literacy wind up being victims of excessive interest rates, fraud, predatory lending, and subprime mortgages.

Review of Literature

SreePriya and Gurusamy (2020) made an effort to evaluate the saving and investing habits of the various classes of investors. To determine the mindset, factors affecting investors to save, and investor preferences for saving, a thorough analysis was conducted. With the help of this study, the issue that investors were having could be resolved and new issues might be avoided.

Professors CA Yogesh P Patel and CS Charuly Patel (2020) conducted research on people's opinions on investing (private sector). The goal of this study is to examine and comprehend the differences in how individuals perceive various investment options, as well as the behavioural patterns of investors in the private sector. It also seeks to shed light on the variables taken into account while making an acceptable investment. The study's findings indicate that most males choose to invest for larger returns at a higher risk, whilst women prefer to do so for the protection of their money. In an effort to comprehend the investing preferences of investors from the middleand lower-income groups in society,

Nanavati Nihar K. (2021) determined their investing psychology and pertinent preferences, 25 investors in Ahmadabad's suburbs participated in a market study. According to a thorough examination of the survey, this group prefers investments that have a high rate of return and are safe, secure, and tax advantageous. The limitations of the study are also due to the skewed perception and wary respondents.

N. Geetha and Dr. M. Ramesh (2020) used a survey method to investigate the investors' investment choices in Kurumbalur, Tamil Nadu. Following data analysis and interpretation, it has been determined that respondents from Kurumbalur have a medium degree of knowledge about different types of investments and are unaware of the stock market, equity markets, bonds, and debentures. According to research findings, investing in insurance, NSC, PPF, and bank deposits are more important for all age groups. A respondent's income is a significant aspect that influences their portfolio. They are aware of several investment options, such as insurance, PPF, bank deposits, little saves like post office savings, etc., but are not aware of this new service or the stock market.

A study on mutual fund characteristics and investor behaviour was conducted by **Nicolas P.B. Bollen in 2022.** The findings show that there is substantial evidence that cash flows into socially conscious funds are more sensitive to lagged good returns than cash flows into conventional funds. Mutual funds have become popular in recent years as a tool for good financial health. Mutual funds have enabled family's profit from the success of Indian business in addition to contributing to the growth story.

This essay examines market research on investor saving and investing habits as well as their preference for investing in mutual Jan - June - 2022 Financial Literacy Among the Different Economic Classes in India 27 funds.

Namakkal Taluk (2023), India's Tamil Nadu Using the questionnaire method, V.R. Palanivelu and K. Chandrakumar (2012) conducted a study on investing choices among wages in the Namakkal district of Tamil Nadu using a sample of 100 investors. The findings reveal that 40% of respondents chose insurance, 24% of respondents' investment goals were safety, and 23% of respondents' investment goals were tax savings. 36 percent of investors make investments on a quarterly basis, while 24 percent make investments on a half-yearly basis. 100 people were surveyed, and 42 percent said they were saving for future needs, while 6 percent said they were saving for a house.

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Methodology

A **financial literacy methodology** is a structured approach to teaching and improving individuals' understanding of financial concepts and their ability to make sound financial decisions. This methodology incorporates various educational techniques and strategies to ensure that people can manage their finances effectively, plan for the future, and achieve financial well-being. Here's a breakdown of an effective financial literacy methodology.

TYPES OF DATA PRIMARY DATA, SECONDARY

SOURCRS OF DATA BY QUESTIONARE OF GOOGLE FORMS

LOCATION SARAIKELA KHARSAWAN

OBJECTIVES

Promote Inclusive Economic Growth:

* Financial literacy aims to bring more people into the formal financial system, reducing reliance on informal and often exploitative financial practices.

* This inclusion fosters greater participation in economic activities, leading to wider economic growth.

Enhance Financial Stability:

* A financially literate population is less likely to engage in risky financial behaviors that can destabilize the economy.

* Understanding debt management, responsible borrowing, and saving reduces the likelihood of financial crises.

Foster Entrepreneurship and Innovation:

* Financial literacy empowers individuals to start and manage businesses, driving innovation and job creation.

* Understanding financial planning, investment, and risk management is crucial for entrepreneurial success.

Increase Savings and Investment:

* Financial literacy encourages individuals to save and invest wisely, increasing the availability of capital for economic development.

* Increased savings and investment contribute to capital formation, which fuels economic growth.

Reduce Poverty and Inequality:

* Financial literacy helps individuals manage their resources effectively, improving their financial well-being and reducing poverty.

* By providing equal access to financial knowledge, it helps to level the playing field and reduce economic inequality.

Improve Consumer Protection:

* Financially literate consumers are better equipped to protect themselves from financial fraud and scams.

* This reduces financial losses and promotes trust in the financial system.

Scope of the study:

1. Individual Empowerment and Economic Participation:

* Financial Inclusion:

* Bringing marginalized populations into the formal financial system.

* Enabling access to banking, credit, insurance, and investment opportunities.

2. Contribution to Macroeconomic Stability and Growth:

* Increased Savings and Investment:

* Boosting domestic savings rates, which provide capital for investment and economic growth.

* Encouraging responsible investment in productive assets.

3. Impact on Social Development and Equity:

* Poverty Reduction:

* Enabling individuals to manage their finances effectively and build assets, contributing to poverty reduction.

* Breaking cycles of intergenerational poverty.

4. Supporting Effective Economic Policies:

* Informed Public Discourse:

* Creating a financially literate population that can understand and engage with economic policies.

* Promoting informed public debate and accountability.

Data Collection

1. Surveys and Questionnaires – Used to assess individuals' financial knowledge, behavior, and decision-making.

2. Interviews and Focus Groups – Provide deeper insights into financial habits and challenges faced by different populations.

3. Assessments/Tests – Measure actual financial literacy levels through basic financial questions.

4. Secondary Data Sources – Include economic reports from the World Bank, IMF, and national statistics

5. Target Population – Data can be collected from students, small business owners, or low-income groups.

Limitations:

1. Measurement Challenges – Financial literacy is hard to measure accurately due to varying definitions and standards.

2. Self-Reported Data Bias – Survey responses may not reflect actual behavior or knowledge.

3. Limited Access to Data – In many regions, reliable data on financial literacy and economic indicators may be scarce.

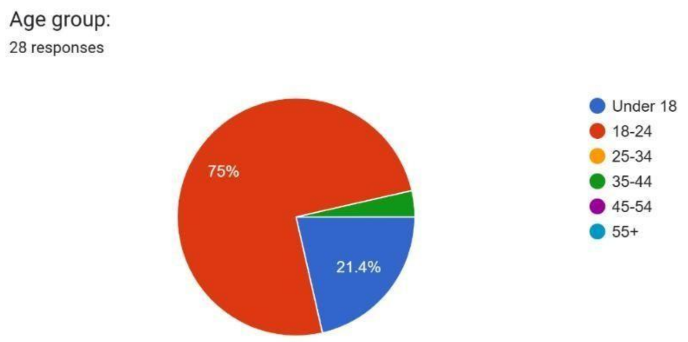
4. Cultural and Regional Differences – Financial behaviors and education needs vary widely, making comparisons difficult.

5. Causality Issues – It's hard to prove whether financial literacy causes economic development or vice versa.

Analysis and Findings

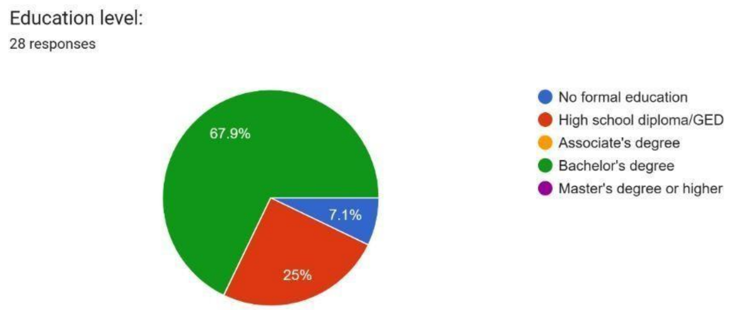
Although in literature and sources one can find several methods whereby scholars have tried to measure the financial literacy level, no unanimously best solution has been confirmed yet. It gives rise to rather serious limitations due to the fact that the research outcomes based on different methodologies are not comparable. Therefore, to avoid this situation, the authors of the present research chose to measure the financial literacy level among young people in **Saraikela- Kharsawan** by such methods that allow comparing the outcomes of research produced in other time and other place to those obtained within the present study, and vice versa – make this work comparable to other similar studies. Thus, in this case, to investigate the financial literacy of young people in Saraikela-Khanwa the quantitative method of survey was selected. Within it the authors surveyed young people who study in

SaraikelaKharsawan to specify their financial literacy level. To determine the financial literacy of young people in **Saraikela-Khanwa** , the authors selected the uppermost indicators of financial literacy that are based on the definition of financial literacy as stated above. The selected indicators were such that register the involvement level of Latvian population in using financial services along with their knowledge and customary conduct in relation to various financial issues. The major indicators in the survey were chosen planning, awareness, financial services, and credits. The survey did not separately include such indicators as savings or pensions that are often essential indicators in sociological surveys of financial literacy, because in the given case they do not refer to the target audience of the research, yet they were synthesized within other issues. To a certain extent the selected indicators were based on the idea that financial literacy was directly related to the individual's awareness level of the basic issues of economy, financial conceptions and terms. As concerns planning, especially important is the question where respondents have to state how often they carry out particular finance planning activities: written records of personal income and expenditure; drafting a shopping list when going shopping; saving from their income; investing in the pension fund; taking a loan in the bank; lending money to relatives, friends, acquaintances; borrowing money from relatives, friends, acquaintances. Financial planning is an essential component that includes knowledge on the principles of planning a private person's budget, knowledge on options of balancing incomes and expenditures, etc. Being informed in practically any issue is a decisive aspect as lack of information may lead to ignorance. It concerns also financial literacy – lack of information may create disorientation and inability to plan and successfully use one's finances. Within the questionnaire, matching the target audience of the research, the authors attempted to clarify the respondents' awareness and experience with financial products. Knowledge of the products and services offered by banks and other financial institutions is essential for understanding risks and liabilities that arise when dealing with more complex financial products, etc. It is equally important to acknowledge not only the awareness level of these financial services but also their practical use of Ouestionare are:

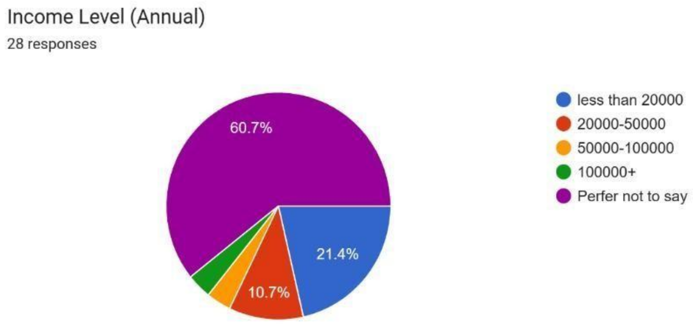


INTERPREATON - Above pie chart represent that 75% which below to age group (1824) is more parpticipation in the surveys of Financial literacy.

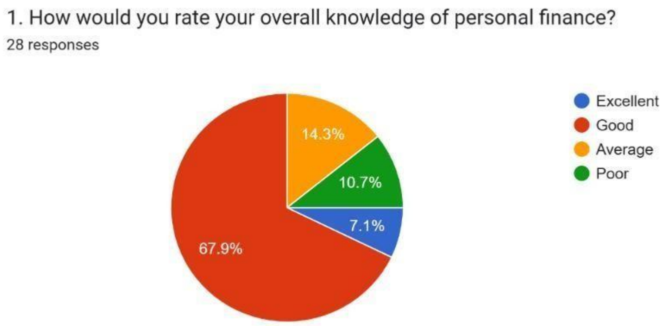
Age below to (55+) 21.4% pariticipation rate.



INTERPREATON – Above pie chart represent that 67.9% is below to Bachelor's degree ,25% is below to High school diploma/GED, 7.1% is below to no Formal education



INTERPREATON – Above pie chart represent that 60.7% is below to Perfer not to say income levels, 21.4% is below to less than 20000 income levels, 10.7% is below to 2000050000 income levels and remaning belows to 50000-100000,100000+.



INTERPREATON - The responses to the question "How would you rate your overall knowledge of personal finance?" from 28 respondents are:

Poor:

7.1%

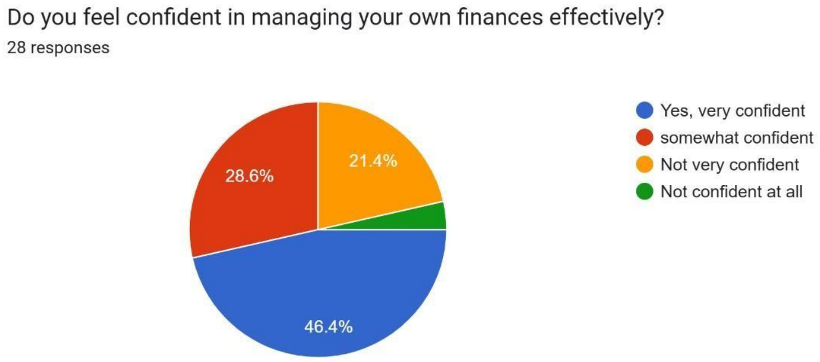
Average:

10.7% Good:

14.3%

Excellent:

67.9%



<u>INTERPREATON-</u> The pie chart shows the results of a survey question: "Do you feel confident in managing your own finances effectively?" with 28 responses. The results are:

Yes, very confident:

46.4%

Somewhat confident:

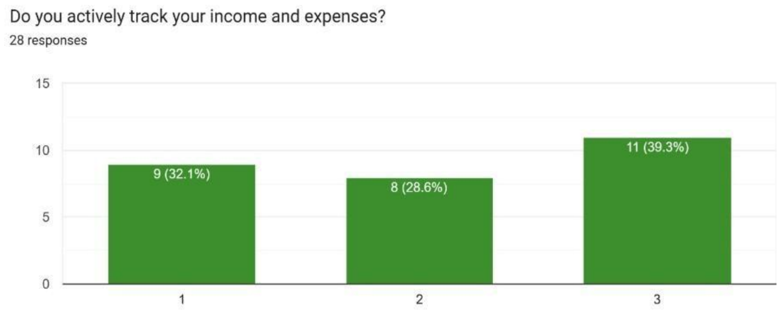
28.6%

Not very confident:

21.4%

Not confident at all:

3.6%



INTERPREATON- The responses to the question "Do you actively track your income and expenses?" are as follows:

39.3% (11 responses) selected option 3.

32.1% (9 responses) selected option 1.

28.6% (8 responses) selected option 2.

It appears that the majority of respondents (39.3%) actively track their income and expenses, while a significant portion (32.1% and 28.6%) may not be doing so as actively. Tracking expenses is important for understanding spending habits and creating a budget. Methods for tracking expenses include using notebooks, spreadsheets, or budgeting apps.

Conclusion

We review the literature on the rapidly evolving field of financial literacy. Interestingly, although the topic has become an important field in academia and also attracts the attention of policymakers around the globe, a universally accepted definition of the term has not yet been offered. Consequently, it comes to no surprise that there is no common operationalization, either. Instead, various measures for financial literacy have been developed, mostly based on a set of questions included in household surveys. Initially proposed as a starting point to measure financial literacy, Lusardi and Mitchell have developed a parsimonious set of three questions related to financial literacy which have now become known as the *Big Three*. By now, these questions have become the gold standard in measuring individuals' financial knowledge and abilities and have been incorporated in many household surveys around the world, including the novel PHF survey for Germany.

Focusing on the empirical evidence regarding the *Big Three* questions, we document that the level of financial literacy is generally rather low and we also find substantial differences between national economies and demographic cohorts. In particular, financial literacy turns out to be considerably lower in transition economies and lower-income economies as compared to industrial economies, a finding which is also corroborated in the recently conducted *Standard and Poors FinLit Survey* (Klapper et al. 2021). According to Klapper et al. (2022) as well as our analyses of the data provided by the PHF survey, financial literacy levels of German citizens are among the highest in the world. However, even in Germany almost half of the survey participants are not able to answer all *Big Three* questions correctly, leaving room for substantial improvements of financial literacy. In addition, in Germany and elsewhere, the elderly and the young as well as the least educated and lowest-income individuals possess particularly low literacy levels. These groups have the highest propensity to commit financial mistakes. Thus, policy makers and interest groups around the world have put considerable effort in increasing peoples' financial literacy. As becomes obvious from our review of the literature, however, the educational initiatives yielded rather disappointing results and apparently, their capability to improve the quality of financial behavior is limited. Thus, improving the effectiveness of the programs seems key in order to literate individuals to sufficient levels. We also review the current literature on financial advice, since financial advice might act as a substitute for financial literacy, thereby improving individuals' financial decision making without treating them to extensive financial education programs. By and large, the corresponding evidence is inconclusive but promising if moral hazard issues leading to conflicts of interests in the advisor-advisee relationship can be effectively mitigated or even eliminated. In what follows, we would like to highlight a number of topics which—from our perspective—represent fruitful avenues for future research. First, the majority of research on financial literacy has been conducted with a geographic focus on the U.S. and there is far less evidence available for Europe, e.g. for Germany. Does this focus on the U.S. pose an issue to our knowledge about individuals' financial literacy? We believe the answer is yes: financial decisions faced by U.S. citizens and German citizens, for instance, differ a great deal.

Specifically, one of the major financial issues pertaining to the asset side of a U.S. household's balance sheet is the investment decision concerning 401(k) plans as part of a company pension scheme. How much should one contribute to the plan in order to maximize matching of the employer and how should the contributions be invested wisely across asset classes and financial products? In
Germany, unlike in the U.S., decisions regarding defined contribution plans are much less relevant. On the one hand, the public pension system is still comparably generous and payments from corporate pension plans for retirees are of subordinate importance. On the other hand, plan participants in Germany usually do not have the discretion to determine the asset allocation of contributions. Thus, financial literacy is not as relevant when it comes to this decision. Although the designs of company pension schemes differ substantially between the two countries, a German household's choice whether or not to participate in state-subsidized private pensions schemes (most prominently *Riester* plans) is comparable to decisions faced when dealing with 401(k) plans along several dimensions.
Consequently, we encourage more research in the vein of Coppola and Gasche (2021) in the future.

From a German perspective, we currently see one additional major issue with respect to financial literacy and financial decision making that is rarely addressed in the literature, most probably because it is rather specific to Germans savers: due to a lack of knowledge and experience regarding stockholdings and equity mutual fund investments, an overwhelming majority of German households is still exclusively invested in savings products. Clearly, this investment strategy is quasi deterministically associated with a loss in household purchasing power in times of interest levels persistently close to zero. We believe that extending the conceptualization and measurement of financial literacy including knowledge about the long-run distributional characteristics of stock investment returns can be a promising avenue to increase the below-average willingness to participate in the stock market observed among Germans.

Turning the attention to the liability side of the household's balance sheet, U.S. Americans and Germans also face very different challenges. While households in the U.S. were exposed to highly complex mortgage arrangements prior to the subprime crisis, plain vanilla debt contracts have been dominant in Germany ever since. In addition, issues like illiterate credit card use have typically been much less of an issue in Germany since credit card balances are charged against the cardholder's bank account on a monthly basis. Thus, financial debt literacy appears less of an issue in Germany than in the U.S.

Recently, there has been notable progress in fostering research outside the U.S. The PHF survey, for instance, gives researchers the opportunity to relate financial literacy to various demographics as well as to a number of financial decisions of households. With the second wave of the PHF survey available for scientific use since April 2016, scholars are now able to conduct detailed analyses of households' financial situation across subjects and over time. We are looking forward to interesting and novel insights concerning the relationship between financial literacy and financial behavior in the German context based on this rich dataset. For future cross-country analyses, it is crucial that survey data is elicited using a consistent methodological approach (e.g. identical selection and training criteria for interviewers) in all participating countries to ensure comparability of outcomes. The launch of the *Eurosystem Household Finance and Consumption Survey* (HFCS)—the German part of it covered via the PHF—marks a first step in this direction. Similarly, we embrace other cross-country initiatives such as the above-mentioned OECD initiative and S&P's *Finlit Survey* both of which elicit consistent and readily comparable data across a number of different countries.

Reference

Above Desk project references by:

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